



Economic Impact Analysis Virginia Department of Planning and Budget

18 VAC 50-30 – Board of Contractors Tradesman Rules and Regulations
Department of Professional and Occupational Regulation
June 22, 2006

Summary of the Proposed Regulation

Pursuant to Chapter 792 (2005 Acts of Assembly), the Board of Contractors proposes to add Certified Well Systems Providers to the list of entities regulated under the board's Tradesman Regulations.

Result of Analysis

The benefits likely exceed the costs for these proposed regulatory changes.

Estimated Economic Impact

Currently, water well systems providers are not regulated under the board's tradesman regulations. However, businesses undertaking water well systems work are required to have a contractor's license of the appropriate level for the dollar worth of the work being provided. Businesses that hold a class C contractors license must, among other requirements, have a qualified individual that has at least two years of experience working on any job. Businesses with a class C contractors license may only work on individual jobs that are worth \$7,500 or less and may only have aggregate yearly total job earnings of \$150,000. Businesses with class B licenses must have a qualified individual with at least three years of experience on any job: individual jobs must be worth less than \$120,000 and total yearly job earnings may not exceed \$750,000. Businesses with class A licenses must have a qualified individual with at least five years of experience on any job: there are no dollar limits either per job or per year to which class A licensees must adhere.

Pursuant to Chapter 792 (2005 Acts of Assembly), the board proposes to implement a three tier certification (license) program for water well systems providers. As of July 1, 2007, all individuals that provide for-pay water well systems work will have to be certified as a trainee

water well systems provider, a journeyman water well systems provider or a master water well systems provider (contractor license requirements will still be in effect).

At the onset of enforcement of this regulation, individuals seeking any level of certification will have to meet set experience requirements that vary according to the level of certification being sought; they will not, however, have to pass a competency exam to attain their initial level of certification. Trainees will have had to have at least one year of continuous experience working with water well systems before July 1, 2007 to gain initial certification without examination; journeymen will have to have at least three years of continuous experience working with water well systems before July 1, 2007; masters will have to have at least six years of continuous experience working with water well systems before July 1, 2007.

Whatever an individual's initial certification level as of July 1, 2007, he will be able to work independently until June 30, 2012 so long as contractor licensure requirements are adhered to. After June 30, 2012, all water well systems work must be done under the supervision of a water well systems provider master. This means, at least theoretically, that both journeymen who otherwise qualify for a class B or C license and masters could work independently without supervision until mid-2012. In practice, journeymen who want to gain certification as a master will have to adhere to certification by examination requirements (explained below) which limits them to working under the supervision of a master. Journeymen do have the option of working independently until mid-2012, but they would then have to find employment with a master and "re-do" the years of practical experience required for master licensure.

After this initial "grandfather" period, individuals seeking to enter the field or advance to a higher level of certification will have to meet experience and education requirements and will have to pass a competency examination.

Applicant trainee water well systems providers will have to have one year of full-time practical experience under the direct supervision of a certified master water well systems provider and will have to pass a competency examination. The explicit costs of gaining certification as a trainee include an estimated \$100 examination fee and a \$90 certificate fee. The implicit costs of this certification process are likely very minimal and would likely only encompass the opportunity cost of time spent filling out paperwork and taking the examination.

Applicant journeyman water well systems providers will have to have three years of full-time practical experience under the direct supervision of a certified master water well systems provider, 24 hours of formal vocational training in the trade and will have to pass a competency examination. The explicit costs of gaining certification as a journeyman include training costs that The Department of Professional and Occupational Regulation (DPOR) estimates will be approximately \$150 to \$225, a \$100 examination fee and a \$90 certificate fee. The implicit costs of this certification process will encompass the opportunity cost of time spent filling out paperwork, participating in training and taking the examination and any income differential that might exist between wages earned while working for a master water well systems provider as required and the profit that could have been earned as an independent class B or C contractor.

Applicant master water well systems providers will have to have six years of full-time practical experience under the direct supervision of a certified master water well systems provider, 48 hours of formal vocational training in the trade and will have to pass a competency examination. The explicit costs of gaining certification as a master include training costs that DPOR estimates will be approximately \$300 to \$450, a \$100 examination fee and a \$90 certificate fee. The implicit costs of this certification process will encompass the opportunity cost of time spent filling out paperwork, participating in training and taking the examination and any income differential that might exist between wages earned while working for a master water well systems provider as required and the profit that could have been earned as an independent class A B or C contractor.

All experience requirements of certification run concurrently; so, for instance, an individual who has had one year of experience as a water well systems provider and has gained trainee certification would only have to work two additional years to meet the experience requirement for journeyman licensure.

Water well systems providers will have to be recertified biannually. Individuals seeking recertification will pay a \$40 recertification fee and will have had eight hours of continuing education that DPOR estimates will cost \$50 to \$75 biannually. In addition to these fees, water well systems providers will incur implicit costs equal to the value of time spent training rather than on some other activity. Currently, education requirements can be met by attending one of several of the seminars held by the Virginia Water Well Association annually. Each seminar

includes eight hours of training that will count toward certification or recertification. DPOR plans to also, eventually, offer online classes that water well systems providers can use to meet education requirements.

This regulatory change will ensure a minimum competency level in the pool of water well systems providers that will, hopefully, reduce instances of improperly drilled wells that can become contaminated or even contaminate other, neighboring, wells. This should, in turn, help ensure that the portion of Virginia's citizenry that is not connected into a municipal sewer system has access to clean water that will not make them ill. Of the states that have already implemented some sort of licensure program for well drillers, Maryland and North Carolina have seen a decrease in the number of complaints stemming from improperly drilled wells. Kentucky, South Carolina and Tennessee do not have data from the years before regulation and so are unable to say whether there are fewer complaints since regulation. Texas has seen an increase in complaints about improperly drilled wells; Texas Licensing and Regulation believe they have received more complaints since implementation of regulation because the public is better educated as to where they need to lodge complaints. In any case, if regulation leads to fewer health problems for users of well water, the benefits of this regulatory change that accrue to the citizens of the Commonwealth likely outweigh the costs that will be incurred by well water systems providers.

In addition, this regulatory change may benefit water well systems providers in that better training may reduce the liability costs of insurance premiums and payouts for shoddy work.

Businesses and Entities Affected

The board estimates that approximately 2,500 individuals will apply, under grandfather provisions, for initial certification on or about July 1, 2007. After that, DPOR anticipates approximately 500 individuals per year will seek some level of initial or additional certification under this program.

Localities Particularly Affected

The proposed regulation will affect all localities in the Commonwealth.

Projected Impact on Employment

To the extent that this new certification program increases the costs an individual must incur, and the time it takes, to begin practicing as an independent water well system provider, this regulation may serve as a barrier to entry that will decrease employment in the field. To a lesser extent, the cost of continuing education and recertification will increase the fixed cost of continuing to practice in this field and may, in the long run, induce some water well system providers to stop practicing. This will likely only be an issue for very inefficient water well systems providers who have a difficult time earning a profit now.

Effects on the Use and Value of Private Property

To the extent that higher fixed costs will tend to decrease profits (by a small amount), the value of Water Well System businesses will decrease.

Small Businesses: Costs and Other Effects

All of the approximately 2,500 individuals immediately affected by this regulatory amendment are owners or employees of small businesses. There are approximately 300 of these businesses in the Commonwealth. These businesses will incur extra explicit costs for training and certification (see Estimated Economic Impact above) as well as implicit costs for time spent meeting regulatory requirements and for opportunities foregone because of regulatory restrictions. These costs are likely outweighed by the benefits, such as lower risk of wells being drilled improperly and becoming contaminated, that are likely to accrue to the public in general.

Small Businesses: Alternative Method that Minimizes Adverse Impact

The proposed regulation likely minimizes the adverse impact on the regulated community given the constraints mandated by the Legislature.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to

be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.